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Cabinet Adopts Austere Fiscal 1987 Budget Guidelines

The Japanese cabinet has endorsed stringent guidelines for fiscal 1987 budget requests, calling for a 10 percent cut in spending by most ministries and agencies. The plan adopted July 21 sets overall discretionary spending (total outlays less debt service costs and transfers to local governments) in the April 1987-March 1988 period at Y32,914.2 billion ($205.7 billion at Y160=$1.00), a 1 percent increase from the current fiscal year (see Table 1).

The proposed 10 percent cut in general operating expenditures and planned 5 percent reduction in investment-related programs will be offset by increases in five programs -- defense, official development assistance, social welfare, personnel costs, and science and technology. Detailed budget plans will be submitted by the end of August to the Finance Ministry, which will then prepare a draft budget for release at the end of 1986. The budget guidelines, negotiated by former Finance Minister Noboru Takeshita, are unlikely to be affected by the arrival of the new finance minister, Kiichi Miyazawa, who has called for increased government spending to reflate the economy. Mr. Miyazawa

said he has agreed with the prime minister to "flexibly" carry out the government's fiscal reconstruction program aimed at balancing the budget by fiscal 1990.

Defense spending is slated for a 6.3 percent increase, down from a proposed 7 percent for both the current fiscal year and FY 1985 (see Table 2). The Japan Defense Agency had reportedly pushed a 7.2 percent rise to help fulfill the five-year defense buildup program started this year. Mr. Takeshita had offered 3 percent, arguing that lower oil prices and reduced pension payouts attributable to a slower rate of retirement in the Self-Defense forces would hold down costs. The compromise will raise defense spending by Y210.6 billion ($1.3 billion), bringing total expenditures close to the one percent of gross national product ceiling.

A 5.3 percent rise has been penciled in for social welfare spending, while ODA outlays are tentatively scheduled to expand 7.5 percent, down from FY 1986's 10 percent proposed increase. Former Foreign Minister Shintaro Abe noted that, given the yen's sharp appreciation, foreign aid would increase more than 10 percent in dollar terms, keeping Tokyo on track with respect to its goal to double the level of ODA spending during the next seven years.

MOF continues to adhere to austere fiscal policies despite increased pressure from business and Liberal Democratic Party leaders for additional government spending to boost the economy. The planned increase in discretionary spending in FY 1987 is 0.5 percentage point less than the 1.5 percent proposed increase for the current year's budget. Moreover, it should be noted that in the budget approved by the Diet for fiscal 1986, discretionary spending actually was reduced for the fourth consecutive year.

Any fiscal stimulus, therefore, will have to come from the supplementary budget planned for this fall. To compensate for the FY 1987 budget's proposed 5 percent cut in public works spending, MOF has agreed to negotiate with the Construction Ministry for additional outlays in this fall's supplementary budget. Prime Minister Yasuhiro Nakasone instructed Mr. Miyazawa to stress aid to smaller businesses and housing construction. The new finance minister told the prime minister that he will determine the size of the budget, which may be as large as Y3 trillion ($18.8 billion), after consulting with ministry aides.

Tetsuo Kondo, the new director general of the Economic Planning Agency, said he supports a large supplementary budget, even though it will require new issues of construction bonds. This will not conflict with the government's fiscal reconstruction policy, he said, since it will lead to faster economic growth and additional tax revenues.

Business leaders, though, are hoping for more than a supplementary budget. The leaders of four major business groups met with Mr. Nakasone on July 23 to present a plan to stimulate the economy. The package includes income and corporate tax cuts and tax breaks on housing and capital investment to stimulate domestic demand. The group also called for concerted action with other countries to stabilize the yen-dollar exchange rate.

Randall S. Jones

Table 1: Proposed Changes in Budget for FY 1987

(spending increase or decrease in billions of yen)

	FY 1986	FY 1987
Overall Discretionary Outlays	Y480.0 (1.5%)	Y330.0 (1.0%)
Defense	219.6 (7.0%)	210.6 (6.3%)
Official Development Assistance	58.0 (10.0%)	47.0 (7.5%)
Alternative Energy Development	20.0	-39.0
Disaster Relief	210.0	170.0
Personnel Costs	167.0	162.0
Pensions	435.0	520.0
International Science and Technology Cooperation	17.0	18.0

Source: Nihon Keizai Shimbun, July 21, 1986.

Table 2: Increases in Defense Spending*

Fiscal Year	Budget Guideline	Initial Budget
1982	7.5%	7.8%
1983	7.3	6.5
1984	6.9	6.6
1985	7.0	6.9
1986	7.0	6.6
1987	6.3	?

*For both the budget guideline and the initial budget, the base for comparison is the previous year's initial budget.

Source: Nihon Keizai Shimbun, July 21, 1986.

Tokyo Nears SDI Decision

Tokyo is said to be nearing a final decision on the question of Japan's participation in the controversial Strategic Defense Initiative. Quoting informed sources, recent press accounts say that by early fall, Tokyo will approve private-sector cooperation, with a decision on participation by government laboratories to follow. Although it is not yet clear if research sponsored by the Japanese government will in fact be available to the SDI program, a decision paving the way for the private sector's inclusion is expected to satisfy the United States, since most authorities feel that the technologies of greatest potential interest to the program are in this sector.

The policy implications of the decision are significant. Japan's 1983 decision to allow transfers of military technology to the United States